Kroger grocery and baking co.

THE KROGER GROCERY & BAKING COMPANY

CINCINNATI, OHIO

Annual Report

FOR THE FISCAL YEAR 1933

Ending December 30, 1933

MRB
Corp file

The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

OFFICERS

Albert H. Morrill, *President and General Manager*

Charles M. Robertson, *Vice-President and Treasurer*
Clarence O. Sherrill, *Vice-President*
L. J. Huerkamp, *Secretary*
J. H. Sadler, *Ass't. Sec'y. and Ass't. Treas.*
F. M. Grieme, *Assistant Treasurer*
T. S. Burns, *Assistant Secretary*
J. M. Markley, *Assistant Secretary*

DIRECTORS

Otto Armleder, Cincinnati, *Capitalist*

R. G. Clark, Cincinnati, *Vice-President and General Manager, Piggly Wiggly Corporation*

Walter A. Draper, Cincinnati, *President, The Cincinnati Street Railway Company*

Charles W. Dupuis, Cincinnati, *President, The Central Trust Company*

G. A. Ginter, Cincinnati, *Member Firm, Nichols, Morrill, Wood, Marx & Ginter*

John M. Hancock, New York, *Partner, Lehman Brothers*

L. J. Huerkamp, Cincinnati, *Secretary, The Kroger Grocery & Baking Company*

Chester F. Kroger, Cincinnati, *Capitalist*

Fred Lazarus, Jr., Columbus, *Vice President and Treasurer, The F. & R. Lazarus & Co.*

Albert H. Morrill, Cincinnati, *President, The Kroger Grocery & Baking Company; Piggly Wiggly Corporation*

Charles M. Robertson, Cincinnati, *Vice-President and Treasurer, The Kroger Grocery & Baking Company*

John R. Roney, Chicago, *Vice-President, Consumers Sanitary Coffee and Butter Stores (Chicago Branch of The Kroger Grocery & Baking Company)*

Clarence O. Sherrill, Cincinnati, *Vice-President, The Kroger Grocery & Baking Company*

PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Nichols, Morrill, Wood, Marx & Ginter

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York

February 10, 1934

To the Shareholders of

The Kroger Grocery & Baking Company:

The annual report herewith submitted is for the fiscal year beginning January 1, 1933, and ending December 30, 1933 (13 periods, four weeks each).

On March 29, 1930, when the present management was installed, and as soon as it became familiar with the condition of the company, it was considered that three years would be required to put the company on a thoroughly sound basis. Increasing severity of the depression, bank moratoria and national administration policies, materially increasing costs of operations, were not anticipated at that date. However, reorganization and improved methods of merchandising, operating and financial control have moved forward on schedule. We think it is a conservative statement to say that beginning with the year 1934, your company is completely reorganized, has a sound and accurate financial control and set-up, an aggressive and controlled merchandising and operating policy, and is in a condition to maintain its position in the industry and to make reasonable improvements in its future earnings.

Directors and Officials We regret to report the death during the year of Mr. B. H. Kroger, Jr., a director and former officer of the company. Mr. Kroger was an active, loyal and valuable director. His removal has been a severe loss to the company. Mr. Chester F. Kroger, a son of the founder of the company, has been elected to the Board.

Mr. Fred Lazarus, Jr., a merchandiser of national reputation, was elected to the vacancy caused by the resignation of Mr. Paul Sims.

The keen and continued interest and activities of the Board during the past year have been even greater than in preceding years.

Sales Dollar sales for the fiscal year 1933 (52 weeks) amounted to $205,691,715.22 as compared to $213,159,742.69 for 1932 (52 weeks), a decline of 3.5% as compared to a decline of 2.4% in retail food prices. (Bureau of Labor Statistics, United States Department of Labor).

During 1933, as compared to 1932, the average number of stores in operation showed a decline of 5.0% and the average sales per store showed an increase of 1.5%.

During 1933, as compared to 1932, average sales per store per week increased an average of $13.00, while retail food prices, in sales per store per week, decreased $20.00.

Earnings The attached Consolidated Income Account for the year ended December 30, 1933, shows a net profit, after Federal Income Tax, of $4,546,203.15. This amounts to $2.5146 per share on 1,792,366—6/20 shares of common stock outstanding, on which dividends are being paid, after provision for preferred dividends of $39,083.05.

It will be noted that for the year 1933, no earnings from Piggly Wiggly Corporation have been added to net income. The reasons for this are stated later under the heading "Piggly Wiggly Corporation".

Excluding from 1932 earnings those of Piggly Wiggly Corporation, the net increased earnings in 1933 over 1932 were $2,105,113.74 or $1.19 per share.

Expenses Our total operating and administrative expense increased in spite of large economies in operations, particularly in transportation. Such increase was due to our full and conscientious compliance with the terms of the President's Re-employment Agreement, effective August 1, 1933. As a result of this Re-employment Agreement, we increased our number of employees during the year by 2,505, or 13.6%, involving an increased expenditure for salaries and wages from August 1 to December 30, 1933, equivalent to approximately 90 cents per share. This substantial contribution to the President's program materially affected earnings. This and other contributions were made freely in support of the President's recovery program.

A horizontal increase in wages, as called for by the President's Re-employment Agreement, is particularly burdensome on a retail distributing agency, whether large or small, because the proportion of total expense paid for wages is much larger than in a manufacturing business. Of Kroger's total expenses, approximately 60% is paid out for salaries and wages. Many of its small volume stores cannot

carry the wage rate provided by the Blue Eagle Agreement of August 1, 1933. On November 15, 1933, a permanent NRA agreement on wages and hours, affecting retail food distributors, went into effect, fixing a somewhat lower minimum wage than the President's Re-employment Agreement. In an endeavor to carry out the spirit of the President's program and to continue our store personnel at the higher minimum wage, your company did not take immediate advantage of the lower minimum set by the agreement, but has endeavored to maintain the higher minimum wherever store volume justifies it.

Depreciation Early in 1933 the Property Committee, consisting of the chiefs of various departments of the business, was instructed to study and investigate the depreciation rates in use. This committee obtained recommendations from the American Appraisal Company and your auditors, Lybrand, Ross Bros. & Montgomery, as to the proper rates to be used. After thorough study and consideration, this committee recommended to the Board of Directors that revised rates be adopted. The Board approved the report and ordered the new rates to be made effective as of January 1, 1933. The revised rates, although lower than heretofore in use, are believed to be fully adequate.

Inventories At the beginning of the fiscal year 1933, inventories amounted to $14,589,421. On June 17, 1933 (end of the first six periods) inventories amounted to $16,449,062. At the end of the fiscal year 1933, inventories amounted to $18,627,029, an increase on December 30, 1933 over December 31, 1932 of $4,037,608 or 27.7%. This increase was intentional. With the threat, promise or prospect of rising prices, the management felt that it should maintain somewhat larger inventories than it maintained during a declining market.

Cash Position and Current Ratio Comparison of cash position and current ratio on December 30, 1933, as compared to December 31, 1932, is shown in graphs on page 13. The decrease in cash and current ratio is mainly accounted for by the increase in inventories and the retirement of funded debt and preferred stock of subsidiaries.

Loans On December 30, 1933, your Company had no bank loans.

Fixed Assets It was reported to you last year that the Board of Directors had ordered adjustments and write-offs of property values based upon a study and recommendation made by a committee of the Board appointed for the purpose of considering and investigating the values of our various fixed assets.

During 1933 valuations have been made of these properties by outside appraisers and certain of your company's own departments. These valuations have substantiated the correctness of the amounts recommended to be written off and disclose sound values of our assets to be $736,290.38 less than existing book values after the write-off at the end of 1932. The Board approved the valuations as reported and ordered that the adjustment be charged to earned surplus.

Capital Structure The shares of common stock issued were increased from 1,830,878—6/20 shares to 1,848,278—6/20 during 1933. The increase of 17,400 shares were issued under stock option contracts made with officers and executives by authority of resolution passed at the Shareholders' Meeting on March 4, 1931. Deducting the shares held in Company Treasury (55,912 under option, as explained hereinafter) the number of outstanding shares, on which dividends must be paid, was 1,792,366—6/20 on December 30, 1933.

You will note that the items of funded debt and preferred stock of subsidiary companies, aggregating $1,265,400.00 on the balance sheet at the close of 1932, have disappeared, these having been called during 1933.

As of March 29, 1930, when the present management was installed, the liabilities for preferred stocks and bonds of subsidiaries, bank loans and employees' deposits, amounted to $7,184,806, all of which have been paid.

There remains between the common stock of the company and its net assets of $46,983,304.66 only the negligible amount of $111,400 of preferred stock of the company. The common stockholders will thus have full participation in earnings without intervention of any material amount of senior securities.

Consolidated Income Account In order to conform with standard practice of competing companies, a change has been made in the outline of our consolidated income account to show warehousing and transportation expense as a part of "Cost of Sales". These expenses have been eliminated from the item "Operating Expenses", as shown heretofore. "Cost of Sales" now includes all items making up the cost of the merchandise in our stores.

Stock Option Contracts In the annual report for 1931 an account was given of various stock option contracts which had been entered into between the Company and officers, executives and employees from 1920 to 1930, and statement made that during 1931, the obligation created by these contracts, aggregating $2,162,033.28, had been discharged. Since the date of the report for 1931, all of these existing stock contracts have been discharged or surrendered. The account previously carried under "Trustee Account" in Balance Sheet, has been closed by authority of the Board, and the accumulated shares in the hands of the trustee turned over to the Company. As will be noted in the Balance Sheet, there is an option on 17,392 shares expiring July 1, 1934. Other than this, there are no stock option contracts with officers, executives or employees in existence, except those created under authority of the resolution of the shareholders passed at their annual meeting March 4, 1931, by which 100,000 shares were set aside for future use of the Stock Contract and Option Committee of the Board of Directors if and when it saw fit to authorize stock contracts. Against the possible obligations of the company under such new contracts the company has acquired and holds in its treasury an aggregate of 38,520 shares of the common stock of the company.

Shareholders The number of common shares outstanding and the number of shareholders, shown on page 12, will indicate the distribution of Kroger stock.

Of your total shareholders, 37% are located in Ohio, owning 36% of the total shares. There are shareholders in every state in the union and 93 in foreign lands. Of your shareholders, 36% are women, 56% men and 8% institutions and corporations. 81% own less than 100 shares each. 65% of total shares are owned by individuals. No individual shareholder owns as much as 2% of your shares. The institution or firm (not a brokerage or investment banking house) having of record the largest ownership of our stock, holds less than ¾ of 1% of our stock. Evidently the ownership of your company's stock is well distributed.

The records of your company show a total of common shares transferred in 1932 of 1,072,016 shares and in 1933 of 1,246,279 shares.

Store Maintenance, Expansion and Closing The number of stores in operation at the beginning and end, and the average number of stores operated, during 1933, is shown on tabulation on page 12. There was a decrease during the year of 337 stores, or 7.1%, an average decrease as compared to 1932 of 243 stores, or 5.0%, and meat markets decreased during the year 78 in number, or 2.7%, an average decrease in 1933 as compared to 1932 of 62, or 2.2%.

We have pointed out in past reports that number of stores means little. Store gain means everything. Our trend has been away from the small stores to the larger complete market in higher rent shopping centers, maintaining nevertheless an adequate number of small stores in lower rent residential sections.

During 1933 there were 289 stores remodeled and 56 new stores opened, as compared to 108 stores remodeled and 116 new stores opened in 1932.

Your company has improved its operation in Sears-Roebuck Stores during the past year, and hopes for a definite expansion of this type of operation during 1934.

Within the last six months, your company has opened two large stores in Milwaukee, Wisconsin, and has under way an aggressive expansion in this territory, which adjoins our Chicago and Madison, Wisconsin operations.

Merchandising and Operations The trend of retail food distribution today is towards two extremes—one, the large super-market, attempting to operate on a low gross, best exemplified by the developments in southern California and in the vicinity of New York City, and the other, high-priced, high quality, numerous and fancy itemed stores, operated on a higher gross. Experience shows that the first type of operation, the super-market, leads to demoralization of the local price structure, store loss, impairment of capital and ultimate disappearance of such markets, and the second type prevents attainment of adequate volume. As a consequence, your company will continue the policy of rapid turnover of an adequate number of items at a moderate and reasonable gross profit, meeting price competition when necessary, but in all cases maintaining its quality.

Our Merchandising and Operations have shown material improvement during the year. These activities have been consolidated and better organized with the objective of giving the company a sounder, more flexible control, adapted to the varied conditions in each of its marketing areas.

During the year, a Meat Merchandising Division has been organized, which controls, manages and promotes the quality, price and sale of meats. Your company was the pioneer in the sale of meats

in grocery stores. It does a proportionately larger volume of meat business than any other chain. There is every indication that the Meat Merchandising Division during 1934 will maintain our high standard and make our meat operations a still more profitable activity.

Your Company has been a pioneer in the sale of fluid milk in grocery stores and it owns and operates five pasteurizing and bottling plants. Through its experience and facilities in buying and processing milk, and its cash and carry policy in its stores, it has been able to adopt and maintain a policy of paying the highest price to the farmer and selling its milk at the lowest price to the consumer. The milk situation in various milk sheds, particularly in the Middle West, has been headline news and a difficult problem for over a year past. The recent change of the policy of the Agricultural Adjustment Administration, under which a minimum price will be set for fluid milk to the farmer and the distribution costs allowed to take care of themselves, with full protection to the consumer against exorbitant prices, means that your company can continue its policy of paying the highest price to the farmer and selling at the lowest price to the consumer. For a time it seemed that this sound, just and natural policy might be upset by governmental regulation.

Kroger Food Foundation This activity has been maintained and extended during the past year. Its primary function is the establishment of standards which Kroger merchandise must meet. Last year Kroger established a General Superintendent of Inspection, operating under the Foundation, whose duties include an impartial inspection of our own manufactured products and those purchased from others. Through this means we intend to maintain Kroger quality second to none.

The Foundation's Housewives Advisory Service and traveling Cooking School have been greatly extended. During 1933, the Cooking School played to aggregate audiences of 293,823 people.

Manufacturing Our Manufacturing Division has been materially improved since our last annual report, and the items which it produces have been increased. Modernization of plant machinery and methods and maintenance of high and uniform standards of quality will be the definite policy of our manufacturing department in the future as in the past. It is a profitable activity and is an essential means of accomplishing our objective: decreasing the cost of distribution of food products from the farmer to the consumer.

Personnel In a business such as your company conducts, the efficiency and contentedness of its large personnel is an essential element of its success. Its business cannot be mechanized and 90% of its success is dependent on the personal equation. During the past year we have had to train and absorb an increase in numbers of 2,505 employees, or 13.6%, due to NRA and PRA, and have had to face the unrest and uncertainties created by the misunderstandings incident to the government's policy of "collective bargaining" and increased wages. The Operating Division and Personnel Department have handled a difficult and scattered situation with patience and skill. Our personnel as a whole is as loyal and efficient today as at any time in the past.

During the past year, with our assistance, our employees have organized the Kroger Employees' Mutual Benefit Association, entirely employee-governed. It furnishes death, sickness and accident insurance, loan facilities through Credit Union Corporations and social features for our employees. It is established and operating in General Office and in all but one branch of the company.

Our training courses for store and supervisory personnel have been continued and extended. Effective January 1, 1934, a carefully prepared incentive plan for store managers and meat masters has been adopted, which will enable these store executives to increase their wages in proportion to their individual accomplishments, and we hope will result in larger compensation to them.

Piggly Wiggly Corporation The chief active subsidiary of your company is this corporation. It owns a distinctive name, trademarks, patents and store plans, which it leases to operators on a royalty basis. The name "Piggly Wiggly" is probably the best known name in existence representing a particular kind of merchandising, distributing unusually high quality merchandise.

Method of food retail merchandising and store layout and fixtures have changed rapidly in the last five years. Little change had been made in the method of management and merchandising set by Piggly Wiggly Corporation during this period. It became increasingly obvious to the management of your company, which owns 99% of the Piggly Wiggly Corporation stock, that radical changes must be made in Piggly Wiggly methods if they were to be kept up to date.

During the year a complete change in management, store methods and set-up was accomplished and a valuable system of service to the operators has been evolved and put into practice. The changes have to a marked degree met with the approval of the operators. Substantially all of the corporation's in-

come is from royalties paid by operators. During the year situations developed relative to its investment account and on account of store leaseholds, which made it advisable to set up out of earnings, additional reserves for probable shrinkage in values. This action made it inadvisable for Piggly Wiggly Corporation to declare any dividends during 1933. As a consequence, your company derived no income from this subsidiary during last year.

With the readjustments accomplished during 1933, the change of store set-up and the aggressive management now in charge of the corporation's affairs, your company should obtain a substantial income from this subsidiary during 1934.

Taxes No report to shareholders would be complete without comment on the constantly increasing tax burden that is placed on corporations generally, but particularly on those operating with multiple outlets such as Kroger. Our taxes consist of two classes—one, general taxes, which are either direct or indirect, and the other, discriminatory taxes aimed at the chain stores. One way and another Kroger will pay or absorb during 1934 forty-two separate and distinct classes of taxes, direct and indirect, and they will approximate $9.00 per share, or 7.8% to sales. Or, putting it another way, our taxes for 1934 will amount to 34.3% on invested capital. The burden thus imposed has been and will be carried, but it affects not only your company's ability to earn net income and pay adequate salaries and wages, but in a broader way, it affects the economies of distribution which it is the object of chain stores to accomplish, that is, it causes increased prices to the consumer.

Discriminatory taxes, aimed as punitive measures against chains, have been enacted or threatened in many states in the Middle West. However, there is evident, we feel, a growing inclination on the part of legislators to recognize the service which the chain renders the body politic as a whole and to hesitate to penalize this industry.

Public Relations This branch of our activities has loomed larger and larger during the past few years. It has been much increased by the Recovery Programs at Washington. It now involves contacts with AAA, NRA, Code Authorities and many other governmental organizations, as well as with legislatures, health boards, municipal councils, Chambers of Commerce and other organizations in seventeen states. We are affected by chain store taxes, trucking regulations, price, hours, quality, and other provisions of codes, laws and municipal enactments, often threatened or enacted with good intentions but without competent knowledge. As one of the largest food distributors your company has had to assume what some times appear to be a disproportionate burden of these activities. But relations of this sort are today an essential and important part of our business. We are confident these relations are being maintained with credit to your company and with increasing public good will.

The same loyal and determined spirit of devotion to the company's interests by our personnel, which has been evident in the past few years, has been maintained during 1933. The morale of the company's officers, executives and employees seems to improve and thrive on the difficulties presented by economic maladjustment, bank holidays, governmental regulations and what not. The increased earnings for 1933 and the general improvement in the company's affairs are due to the abilities and perseverance of its officers, executives and employees. To them I present the sincere thanks of the shareholders.

Respectfully submitted,

Albert H. Morrill

President

The Kroger Grocery & Baking Co

CONSOLIDATED BALANCE SHEETS, DEC

ASSETS	December 30, 1933	December 31, 1932
CURRENT:		
Cash in banks and on hand	$ 8,415,285.83	$ 9,160,672.26
United States Government securities, at cost: par value of securities held in escrow, $327,500. (Quoted market prices 1933 $1,265,297; 1932 $2,584,900)	1,252,500.00	2,532,573.85
County and municipal bonds, at cost: (Quoted market prices 1933 $222,232; 1932 $346,900)	223,000.00	342,135.00
Notes and accounts receivable, net of allowance for those doubtful of collection:		
Customers, including welfare associations and relief agencies	1,130,832.01	1,185,363.52
Employees	23,254.81	41,555.02
Claims, advances, etc.	523,888.08	488,663.36
	1,677,974.90	1,715,581.90
Inventories of merchandise, at lower of cost or market	18,627,029.42	14,589,421.25
Cash surrender value of life insurance	30,452.30	29,229.70
Prepaid insurance, rent, taxes, etc.	395,805.74	274,224.29
Accrued accounts receivable, not due	219,134.99	298,154.33
TOTAL CURRENT ASSETS	30,841,183.18	28,941,992.58
Deferred claims receivable, net of provision for possible losses	505,585.96	27,210.86
Investments, at ledger values:		
Stock and notes of affiliated company, not included in consolidation:		
Capital stock, at cost	6,063,603.63	6,063,338.63
Notes receivable	100,000.00	400,000.00
Other stocks, bonds, mortgage notes and accrued interest	64,088.34	117,306.85
	6,227,691.97	6,580,645.48
Common stock of company held by trustee for sale to employees (24,088 shares)	———	202,515.97
Common stock of company held for sale to employees (38,520 shares)	420,693.51	———
FIXED:		
Land and buildings, as appraised by The American Appraisal Company; Harry S. Cutmore and Associates; C. G. Richardson, C. E.; and the Real Estate Department of the Company, as at January 1, 1933, with subsequent additions at cost:		
Land	1,382,068.45	1,389,850.34
Buildings	8,267,614.24	
Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions at cost	15,595,820.12	
Automotive equipment, etc., at cost	2,597,786.90	
	26,461,221.26	
Less, Allowance for depreciation and obsolescence	12,210,808.94	
	14,250,412.32	15,502,331.40
TOTAL FIXED ASSETS	15,632,480.77	16,892,181.74
Store and general supplies and deferred charges to future operations	431,314.68	357,564.55
	$54,058,950.07	$53,002,111.18

The Board of Directors,
The Kroger Grocery & Baking Company,
Cincinnati, Ohio.

We have examined the accounts of THE KROGER GROCERY & BAKING COMPANY and Subsidiary Co[…] balance sheet at appraisal values as determined by outside appraisers and departments of the company as is specifica[…] the accompanying surplus and income accounts set forth the financial condition of the consolidated companies[…]

mpany and Subsidiary Companies
EMBER 30, 1933 AND DECEMBER 31, 1932

LIABILITIES

		December 30, 1933		December 31, 1932
CURRENT:				
Accounts payable, vendors, etc.		$ 3,929,619.38		$ 4,357,238.09
Accrued expenses, taxes, etc.		2,027,580.79		1,244,951.80
Provision for Federal taxes		743,475.22		416,528.17
Dividends payable		1,810.00		2,307.75
TOTAL CURRENT LIABILITIES		6,702,485.39		6,021,025.81
Funded debt of subsidiary companies		——		465,000.00
Preferred stocks of subsidiary companies		——		800,400.00
Provision for rentals on closed stores, not yet due		373,160.02		426,259.67
		7,075,645.41		7,712,685.48
CAPITAL AND SURPLUS				
Preferred capital stock outstanding:				
First preferred, 6 pct. par $100	$ 55,800.00		$ 81,400.00	
Second preferred, 7 pct. par $100	55,600.00		62,100.00	
		111,400.00		143,500.00
Common capital stock without par value: (Authorized 3,000,000 shares)				
	Shares		*Shares*	
Issued	1,848,278 6/20		1,830,878 6/20	
Less, in treasury (subject to purchase option expiring July 1, 1934)	17,392		19,787	
Outstanding	1,830,886 6/20	33,398,276.30	1,811,091 6/20	32,919,398.70
Paid in surplus		630,697.08		630,697.08
Earned surplus appropriated for contingent uninsured losses		203,401.58		803,646.63
Earned surplus, as annexed		12,639,529.70		10,792,183.29
		46,983,304.66		45,289,425.70
		$54,058,950.07		$53,002,111.18

npanies as at December 30, 1933. The land and buildings and the machinery and equipment are stated in the above
ly set forth in the balance sheet. On the foregoing bases we certify that, in our opinion, the above balance sheet and
as of December 30, 1933 and the result of their operations for the fiscal period then ended.

LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors
February 6, 1934

The Kroger Grocery & Baking Company and Subsidiary Companies

CONSOLIDATED EARNED SURPLUS ACCOUNT

for the period from January 1 to December 30, 1933

Balance, January 1, 1933		$10,792,183.29
Add:		
Net income for the fiscal period ended December 30, 1933, as annexed		4,546,203.15
Sundry credits, net		2,677.26
		$15,341,063.70
Deduct:		
Cash dividends paid in the fiscal period ended December 30, 1933	$1,856,364.05	
Premiums paid on retirement of preferred stock and subsidiary companies' funded debts	108,879.57	
Adjustment arising from the writing off of $1,748,369.39, the difference between recorded costs of equipment and appraisal values, and restoring $1,012,079.01, the difference between the allowances for depreciation recorded on the books of account and depreciation as determined by appraisal	736,290.38	
		2,701,534.00
Earned surplus, December 30, 1933		$12,639,529.70

The Kroger Grocery & Baking Company and Subsidiary Companies

CONSOLIDATED INCOME ACCOUNT

For the periods from January 1 to December 30, 1933 and from January 3 to December 31, 1932

	Fiscal period ended December 30, 1933	Fiscal period ended December 31, 1932
Net sales	$205,691,715.22	$213,159,742.69
Cost of sales, including warehousing and transportation expenses	158,494,790.77	168,016,709.46
	47,196,924.45	45,143,033.23
Operating expenses, excluding depreciation	37,741,116.25	37,686,770.76
Administration expenses	2,202,689.54	1,660,477.65
	39,943,805.79	39,347,248.41
Profit from operations before allowance for depreciation	7,253,118.66	5,795,784.82
Allowance for depreciation	2,386,059.12	3,183,964.95
	4,867,059.54	2,611,819.87
Interest earned, net of interest paid	168,352.34	150,992.96
Profit from operations and other income, excluding income from subsidiary sources, and Federal income taxes	5,035,411.88	2,762,812.83
Net accrued earnings of subsidiary companies for fiscal years (1932 includes dividends received $299,778.03)	182,787.27	331,974.03
	5,218,199.15	3,094,786.86
Federal income taxes, estimated	671,996.00	353,919.42
Net income	$4,546,203.15	$2,740,867.44

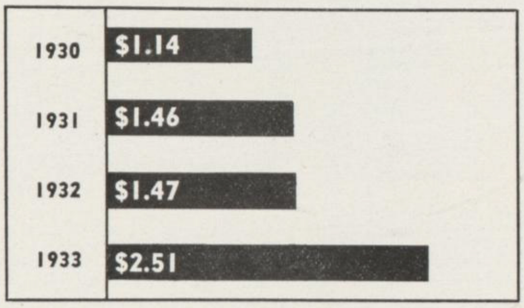
The Kroger Grocery & Baking Company and Subsidiary Companies

Significant Statistics Reflecting Changes in Company Operations

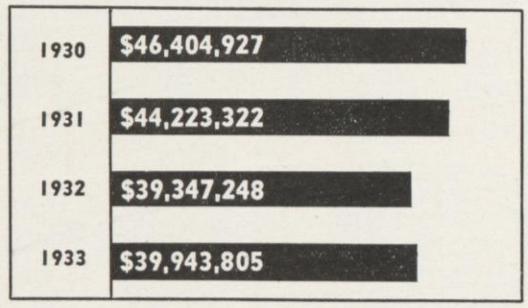
	1930	1931	1932	1933
Final Net Profit Per Common Share	$1.14	$1.46	$1.47	$2.51
Cash Dividend Paid Per Common Share	1.00	1.00	1.00	1.00
Number of Shares of Common Stock Outstanding at End of Year	1,813,486 6/20	1,813,486 6/20	1,811,091 6/20	1,792,366 6/20
Number of Shareholders at End of Year	16,945	18,856	20,680	19,605
Average Sales Per Store Per Week	$954	$941	$848	$861
Index of Average Dollar Sales Per Store Per Week (Base 1929=100)	95.1	93.8	84.5	85.8
Index of Dollar Sales (Base 1929=100)	93.2	85.3	74.4	71.8
Index of Retail Food Prices Compiled by U. S. Bureau of Labor Statistics (Adjusted to Base 1929=100)	93.9	77.4	65.2	63.6
Indicated Tonnage Sales (Base 1929=100)	99.3	110.2	114.1	112.9
Indicated Tonnage Sales Per Store (Base 1929=100)	101.3	121.2	129.6	134.9
Number of Grocery Stores in Operation at End of Year	5,165	4,884	4,737	4,400
Number of Meat Markets in Operation at End of Year	2,990	2,869	2,845	2,767
Average Number of Grocery Stores Operated During Year	5,302	4,980	4,816	4,573
Average Number of Meat Markets Operated During Year	3,033	2,889	2,877	2,815
Number of Licensed Piggly Wiggly Stores in Operation at End of Year	2,767	2,558	2,143	1,979
Number of Full-time Employees at End of Year	20,072	18,906	18,367	20,872

The Kroger Grocery & Baking Company and Subsidiary Companies

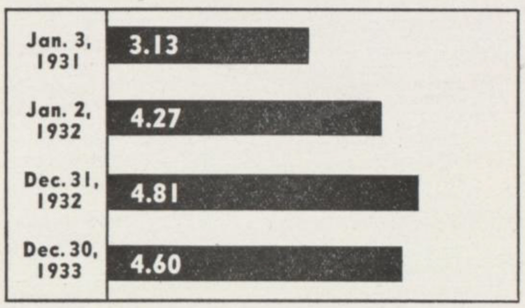
Earnings Per Share on Common Stock



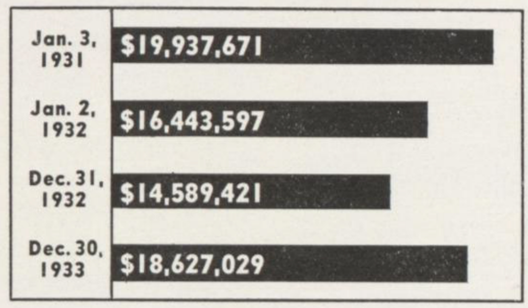
Total Operating and Administration Expenses



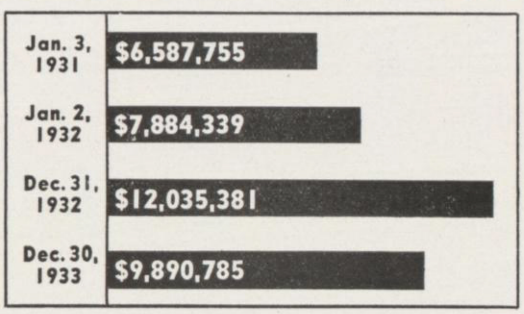
Current Ratio



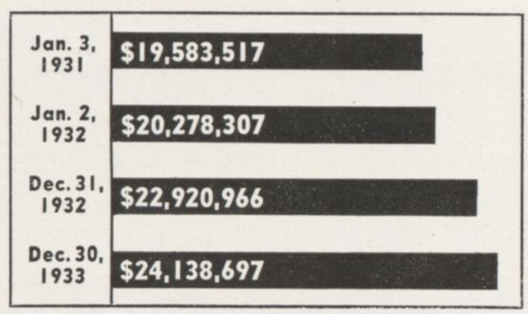
Inventories



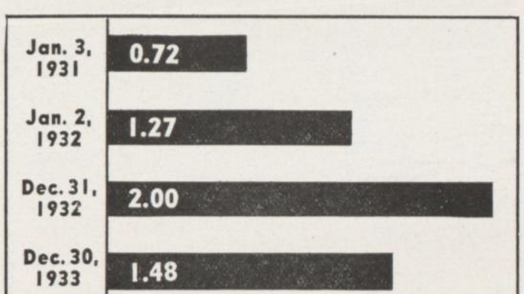
Cash, U. S. Gov't and Municipal Securities



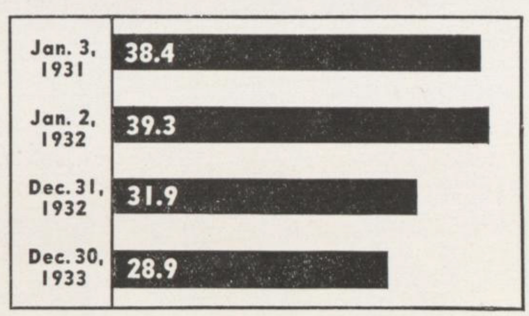
Net Working Capital



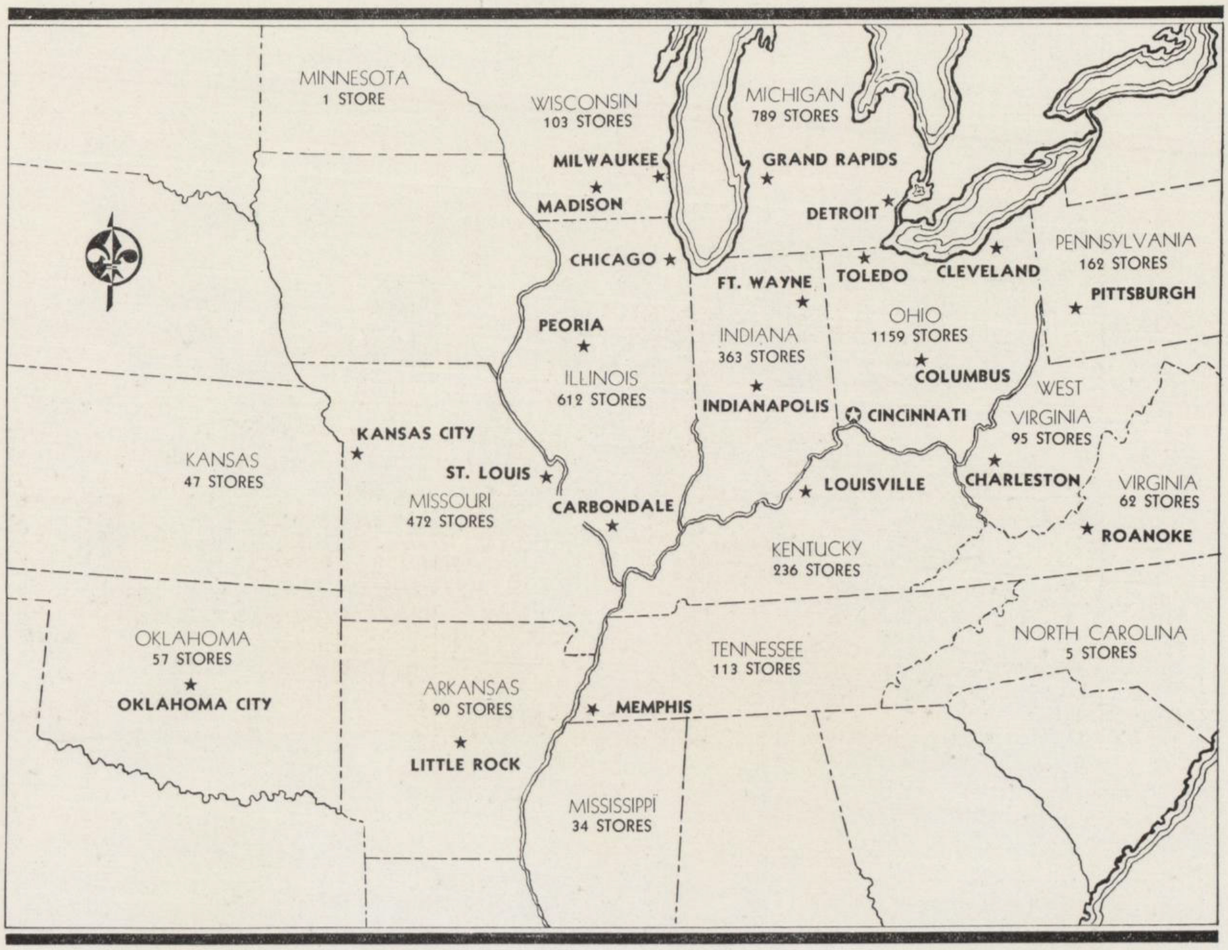
Ratio of Cash, U. S. Gov't and Municipal Securities to Total Current Liabilities



Fixed Assets in Percent of Total Assets



MAP OF KROGER OPERATIONS



The Kroger Company maintains an office, warehouse and transportation unit in twenty-one of the branch headquarters cities shown on the map. Operations in Milwaukee are in their initial stages and no warehousing facilities are maintained there at present. In addition, a number of subwarehouses are operated for the purpose of better serving Kroger stores in the surrounding communities.

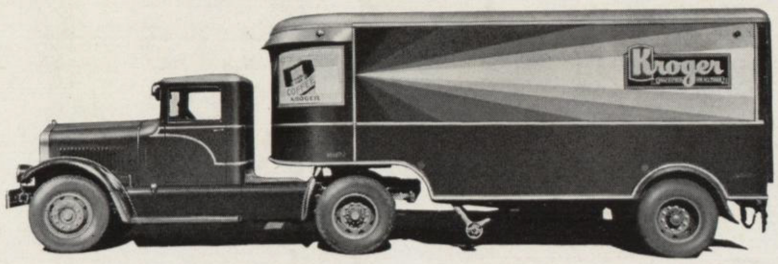
Bakeries are operated in Chicago, Cincinnati, Cleveland, Columbus, Detroit, Fort Wayne, Grand Rapids, Indianapolis, Louisville, Madison, Memphis, Roanoke and St. Louis. Coffee roasting operations are carried on in Cincinnati and St. Louis. Dairies are operated in Cincinnati, Dayton, Grand Rapids, Indianapolis and Toledo. Packing plants are operated at Cincinnati and Columbus.

In addition, the Company operates its own sausage plant, beverage plants, printing plants and laundries at strategic points. In a factory in Cincinnati, various items are manufactured and packaged for sale in stores under the brand names of the Company. An interesting supplement on Kroger-manufactured and private label merchandise is given on the opposite page. A factory manufacturing store fixtures and equipment is operated at Jackson, Tennessee, by a Kroger subsidiary.

REPRESENTATIVE KROGER BRANDS

In all of the more than two hundred items sold under our brand names, manufactured and packed by ourselves and others, a uniformity and excellence of merchandise is assured to a degree not generally found. Before being accepted from our manufacturing units or from others, merchandise is tested for quality and content by the Kroger Food Foundation. Standards of size, weight, quality and flavor are rigidly maintained and when products are advertised as *the Pure Best,* only the pure best are sold.

To this policy of the Kroger Grocery & Baking Company, we attribute the popularity of our products.


Kroger